



# WASTEWATER COLLECTION UTILITY FINANCIAL PROJECTIONS

April 23, 2024

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# RESIDENTIAL SYSTEM AVERAGE RATE PROJECTIONS

	FY 2024 (effective July 1, 2023)	FY 2025 (Projected)	FY 2026	FY 2027	FY 2028	FY 2029
<b>Electric Utility <sup>(1)</sup></b>	-\$5.80 -5%	\$7.00 9%	\$4.60 5%	\$4.80 5%	\$5.10 5%	\$5.30 5%
<b>Gas Utility <sup>(2)</sup></b>	\$5.20 8%	\$6.30 9%	\$5.40 7%	\$5.70 7%	\$5.20 6%	\$5.60 6%
<b>Wastewater</b>	\$4.00 9%	\$7.30 15%	\$5.00 9%	\$5.50 9%	\$5.30 8%	\$5.00 7%
<b>Water Utility</b>	\$5.20 5%	\$11.40 11%	\$9.20 8%	\$13.70 11%	\$15.20 11%	\$7.70 5%
<b>Refuse</b>	\$0.00 0%	\$0.00 0%	\$1.50 3%	\$1.50 3%	\$1.60 3%	\$1.60 3%
<b>Storm Drain <sup>(3)</sup></b>	\$0.80 5%	\$0.40 3%	\$0.40 3%	\$0.50 3%	\$0.50 3%	\$0.50 3%
<b>Monthly Bill Change <sup>(4)</sup></b>	<b>\$9.40 3%</b>	<b>\$33.60 9%</b>	<b>\$27.10 7%</b>	<b>\$32.90 7%</b>	<b>\$34.10 7%</b>	<b>\$26.60 5%</b>

- 1) FY 2025 projection incorporates results of cost-of-service analysis
- 2) Based on general fund transfer of 11.9% of gross revenue in FY25; gas rate changes shown with commodity rates held constant; actual gas commodity rates vary monthly
- 3) Storm Drain fees increase by CPI index annually per approved 2017 ballot measure (2.6% in FY 2025)
- 4) Based on an FY 2023 monthly residential bill of \$369



# Wastewater Collection Proposal

- Staff Recommendation: 15% rate increase in FY 25, **\$7.29** per residential customer per month
  - Reduced-size sewer replacement (1.25 miles in FY 2026)
  - \$2M Pump station retrofit in FY 28
- Alternative 9% rate increase in FY 25, \$4.37 per residential customer per month
  - Defer FY 25 and FY 26 planned sewer replacement
  - Defer pump station retrofit
- Both staff recommendation and alternative will:
  - Resume 2.5 miles per year of sewer main replacement in FY 28
  - Recommend Council approval of a short-term loan from the Fiber Optics Fund Reserve to the Wastewater Collection Fund Operations Reserve not to exceed \$3 million for FY 24
- Staff re-evaluating the utility’s cash and reserve requirements as the transition to 5-mile sewer replacements continues and may propose modifications in next year’s Financial Plan

## Rate Projections:

Fiscal Year	2024	2025	2026	2027	2028	2029
Staff Recommendation	9%	15%	9%	9%	8%	7%
Alternative	9%	9%	9%	9%	9%	9%
FY 2024 Financial Plan	9%	9%	9%	8%	5%	5%

# Summary of Wastewater Collection Proposal and Alternative

## Residential Bill Impacts

	Alternatives	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>Estimated Bill Impact for Residential Customers (\$/mo.) and Rate Increase Percentage (1)</b>	Proposal: 15% in FY 2025	7.29	5.03	5.48	5.31	5.02
		15%	9%	9%	8%	7%
	Alternative: 9% in FY 2025	4.37	4.77	5.20	5.66	6.17
		9%	9%	9%	9%	9%
<b>Estimated Monthly Sewer Bill (\$)</b>	Proposal: 15% in FY 2025	55.93	60.96	66.44	71.75	76.77
	Alternative: 9% in FY 2025	53.01	57.78	62.98	68.64	74.81
<b>Net Difference in Monthly Bills (\$)</b>	15% vs. 9% in FY 2025	2.92	3.18	3.46	3.11	1.96

(1) estimated impact on residential wastewater monthly bill, which is currently \$48.64.



# Wastewater Collection Alternatives & Residential Bill Impacts

	FY 2025 – FY 2026 Main Replacement <sup>a</sup>		FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Age of Last Remaining Sewer Main Replaced
	Budget	Length (miles)						
<b>Proposal: 15% in FY 2025</b>	\$3M	~ 1.25	15%	9%	9%	8%	7%	110 years
			<b>\$7.29</b>	<b>\$5.03</b>	<b>\$5.48</b>	<b>\$5.31</b>	<b>\$5.02</b>	
<b>Alternative: 9% in FY 2025</b>	\$0	0	9%	9%	9%	9%	9%	111 years
			<b>\$4.37</b>	<b>\$4.77</b>	<b>\$5.20</b>	<b>\$5.66</b>	<b>\$6.17</b>	

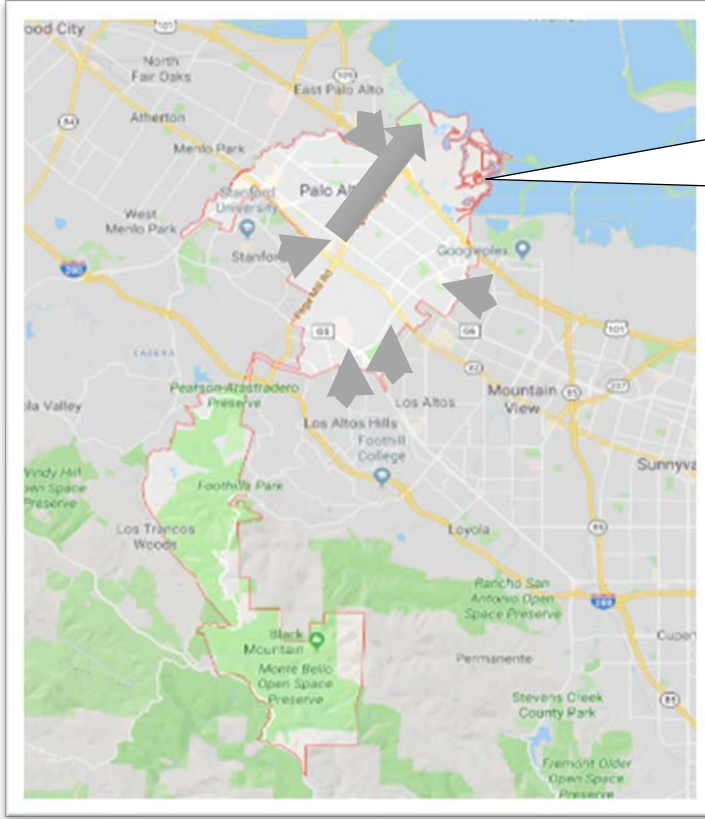
a) The estimated budget for a 5-mile sewer main replacement in FY 2025 – FY 2026 is \$11.6 million.

# Wastewater Collection Utility Projections

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- FY 2023 Year End Ops Reserve below minimum guideline and below zero, at -\$0.7M, due to:
  - \$3M – higher CIP-related (including admin costs)
  - \$0.5M – revenue lower than forecasted
  - \$0.3M – higher transfers out to capital projects
- Sanitary Sewer Replacement 31 moved up a year from FY 2024 to FY 2023 due to coordination with CalTrans; \$9.3M in the reappropriations reserve for this project
- Current year revenue projected to be \$0.7M below projection due to non-residential revenue declines as a result of wet weather and reductions in winter water usage
- Recommend reduced size sewer main replacement (construction in FY 2026)
- Reductions temporary as the Wastewater Collection fund increases revenues to sustainable level by the end of the forecast period

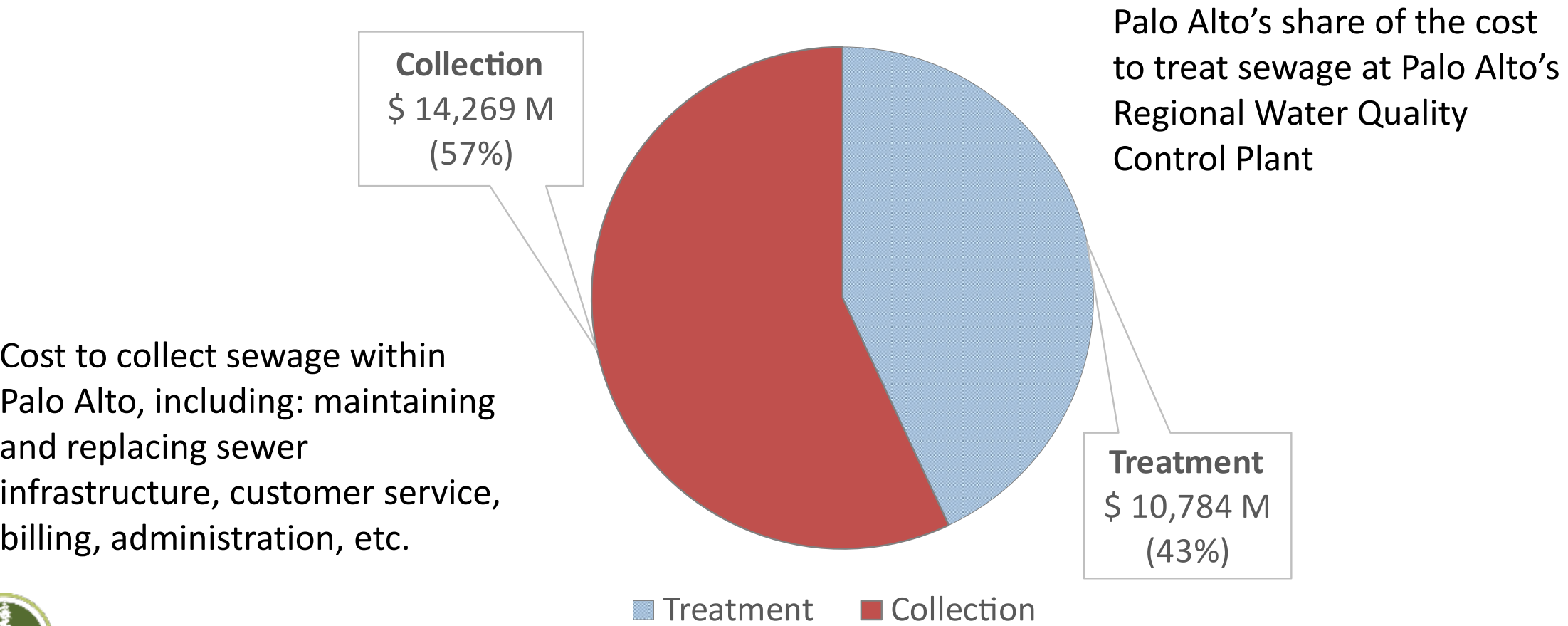
# Wastewater Collection Utility Basics



- Treatment Plant has five partners: Stanford, East Palo Alto, Los Altos Hills, Los Altos, and Mountain View
- Wastewater drains from partner systems through the City of Palo Alto Collection System, and into the City of Palo Alto Regional Water Quality Control Plant (RWQCP) for treatment
- City of Palo Alto Utilities Department manages collection system, Public Works manages the RWQCP

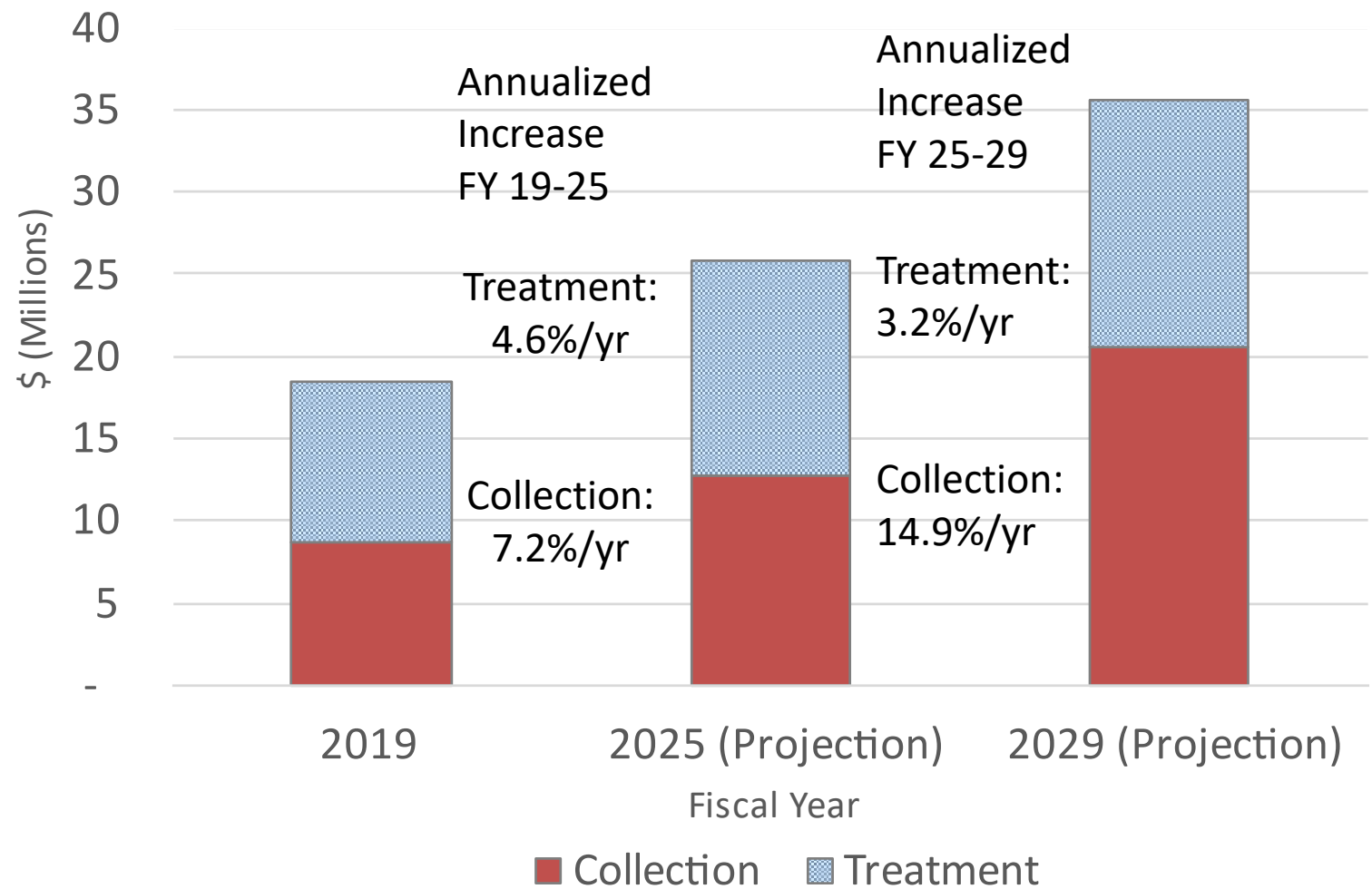


# Wastewater Collection Utility Cost Structure





# Wastewater Collection - Long Term Cost Trends



Note: Collection Capital reflects Two-Year Average



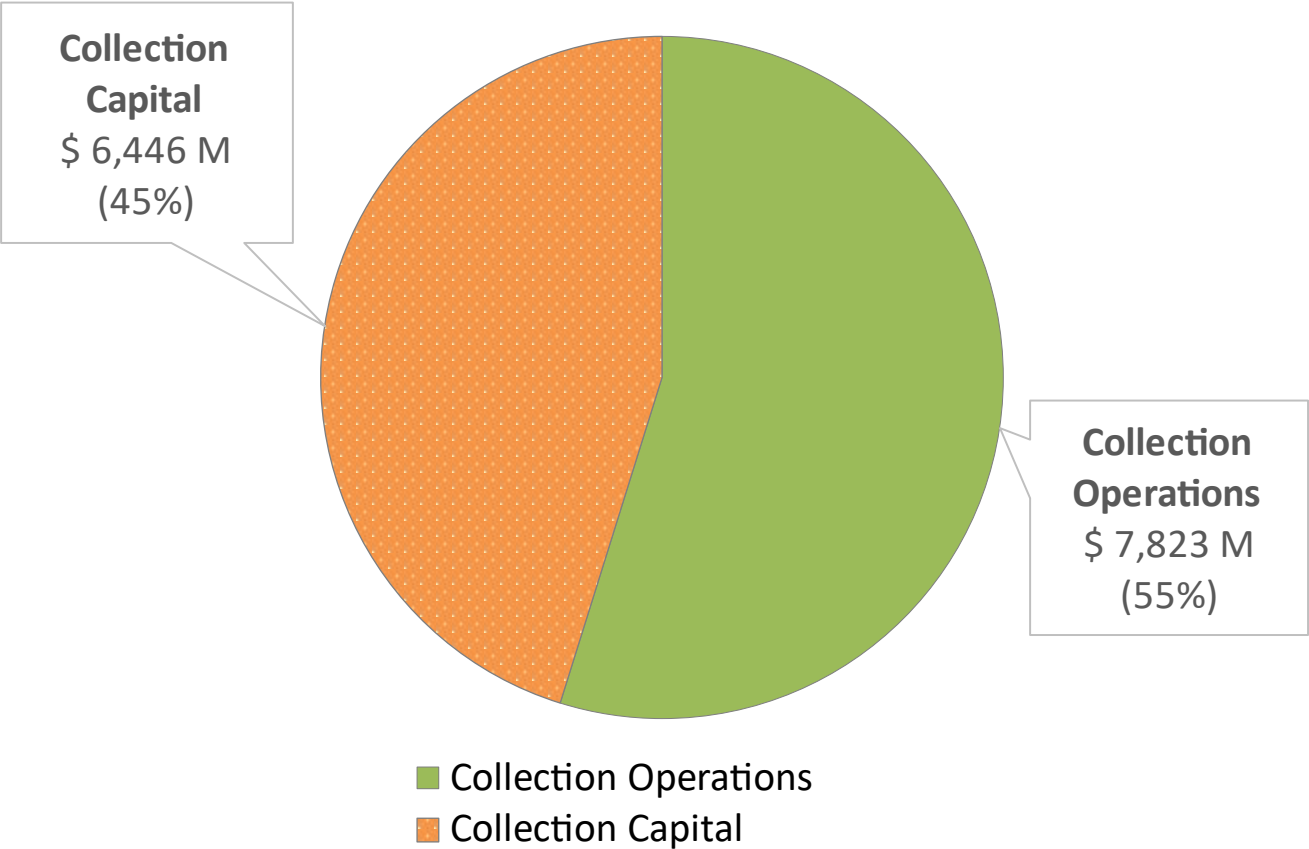


## Treatment Cost Drivers

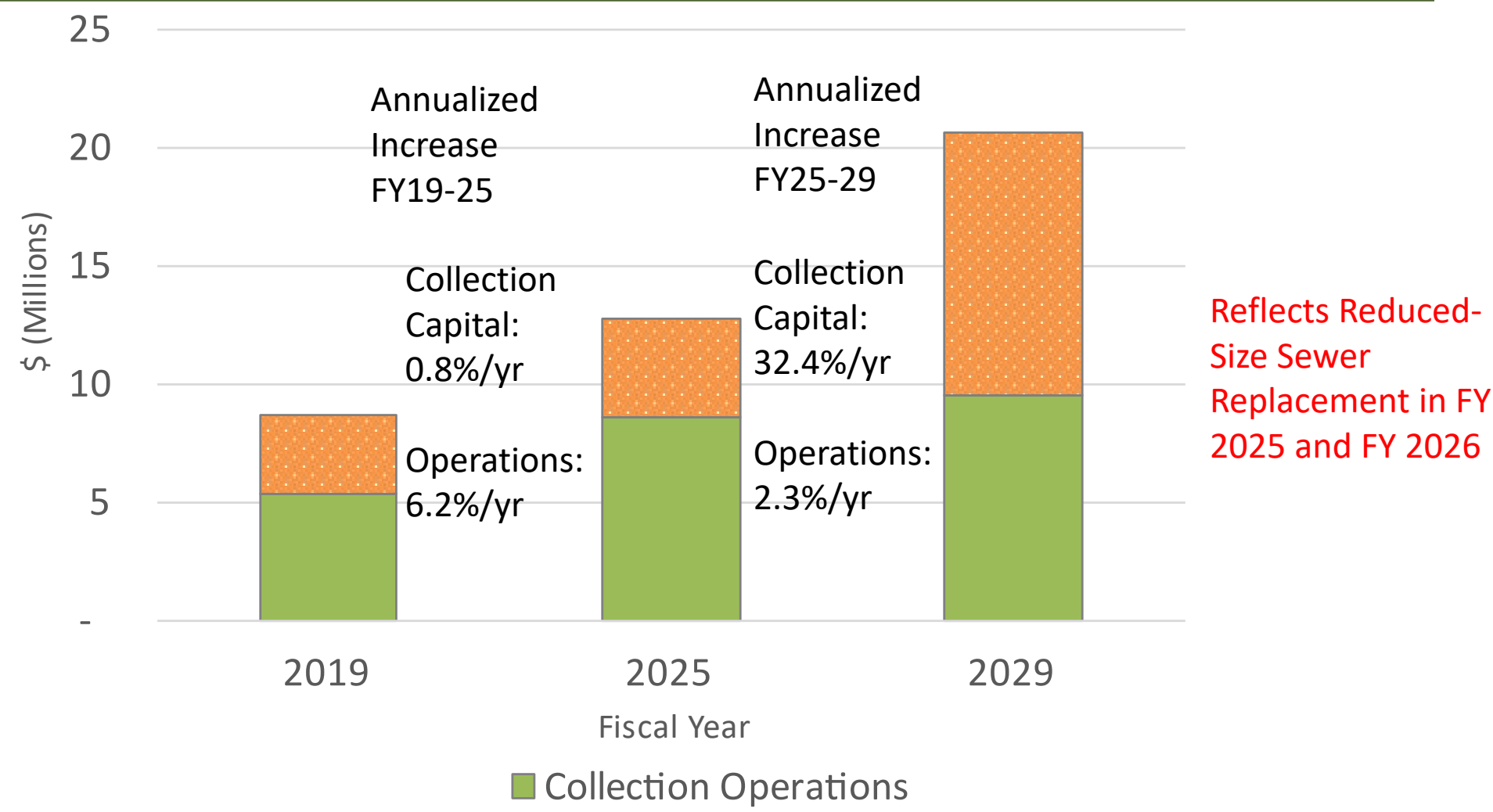
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- Regional Water Quality Control Plant needs rehabilitation
- Long Range Facilities Plan completed in 2012, currently being updated including partner cost-share re-evaluation
- Near Term Major Projects:
  - Sedimentation Tank (\$19.4M)
  - Outfall Pipeline (\$17.8M)
  - Laboratory/Operations Center (\$48.5M)
  - Secondary Treatment Upgrades (\$193M)
- Applying for grant funding from Valley Water (estimated \$11.2M available to Palo Alto from 2024 through 2033);
  - Forecast assumes \$7.4M available from FY 26 – FY 29

# Wastewater Collection Costs



# Wastewater Collection Cost Trends





# OPERATIONS/CAPITAL COST DRIVERS

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## Operational Costs

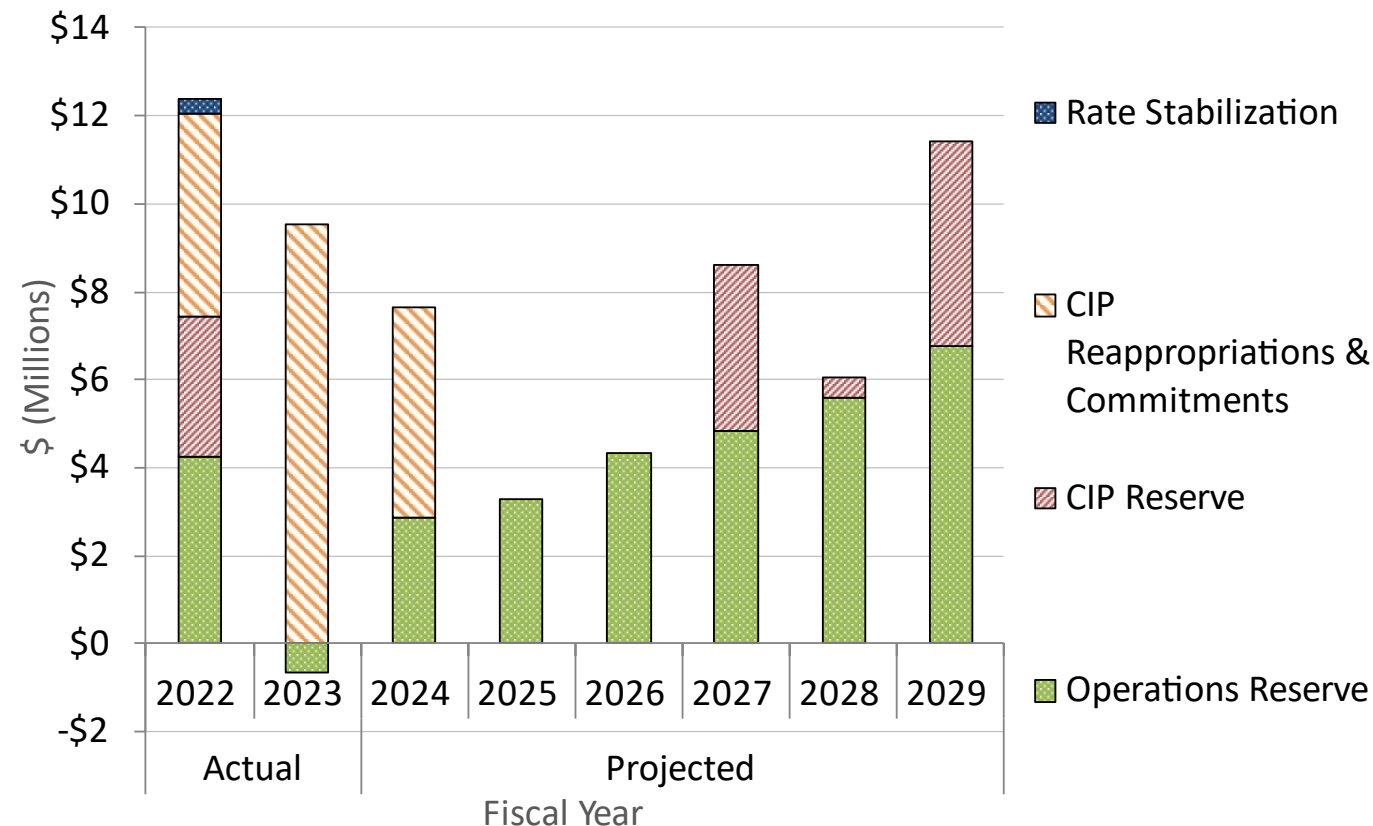
- Salary and benefit costs for existing staff
- 3-4% annual inflation for other operating costs
- Revenue reduction expected in current year \$700K, estimated recovery by FY 2027
- Lower connection, capacity fees and interest income

## Capital Costs

- Underground construction cost increases
- Allocated cost increases
- Sanitary Sewer Replacements at the rate of 2.5 miles per year after fund recovers

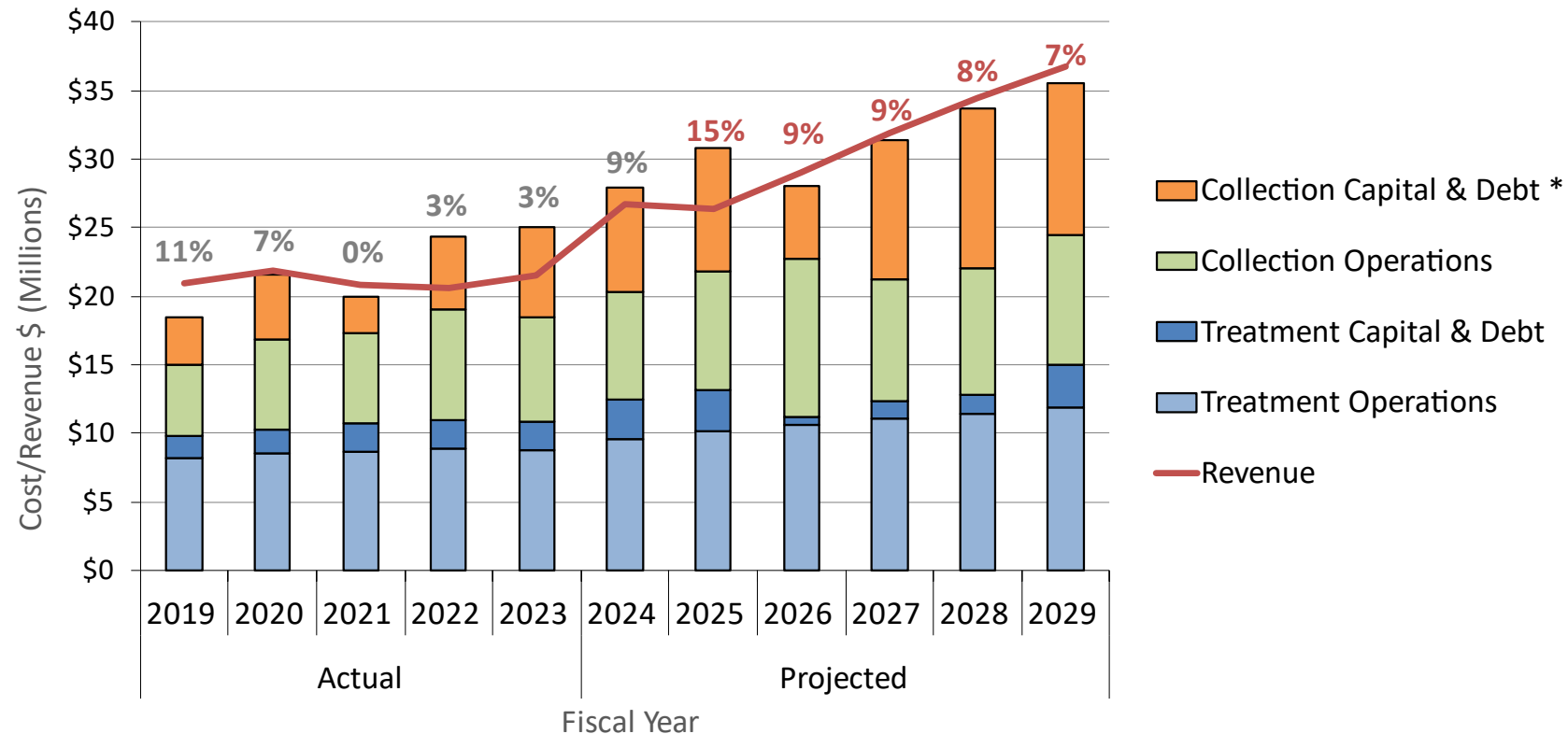


# Wastewater Collection Reserve Projections



Note: assumes 15% rate increase in FY 2025, reduced size sewer replacement in FY 2025 and 2026 and \$3 million short-term loan from Fiber Optics Fund in FY 2024 that is repaid during FY 2026

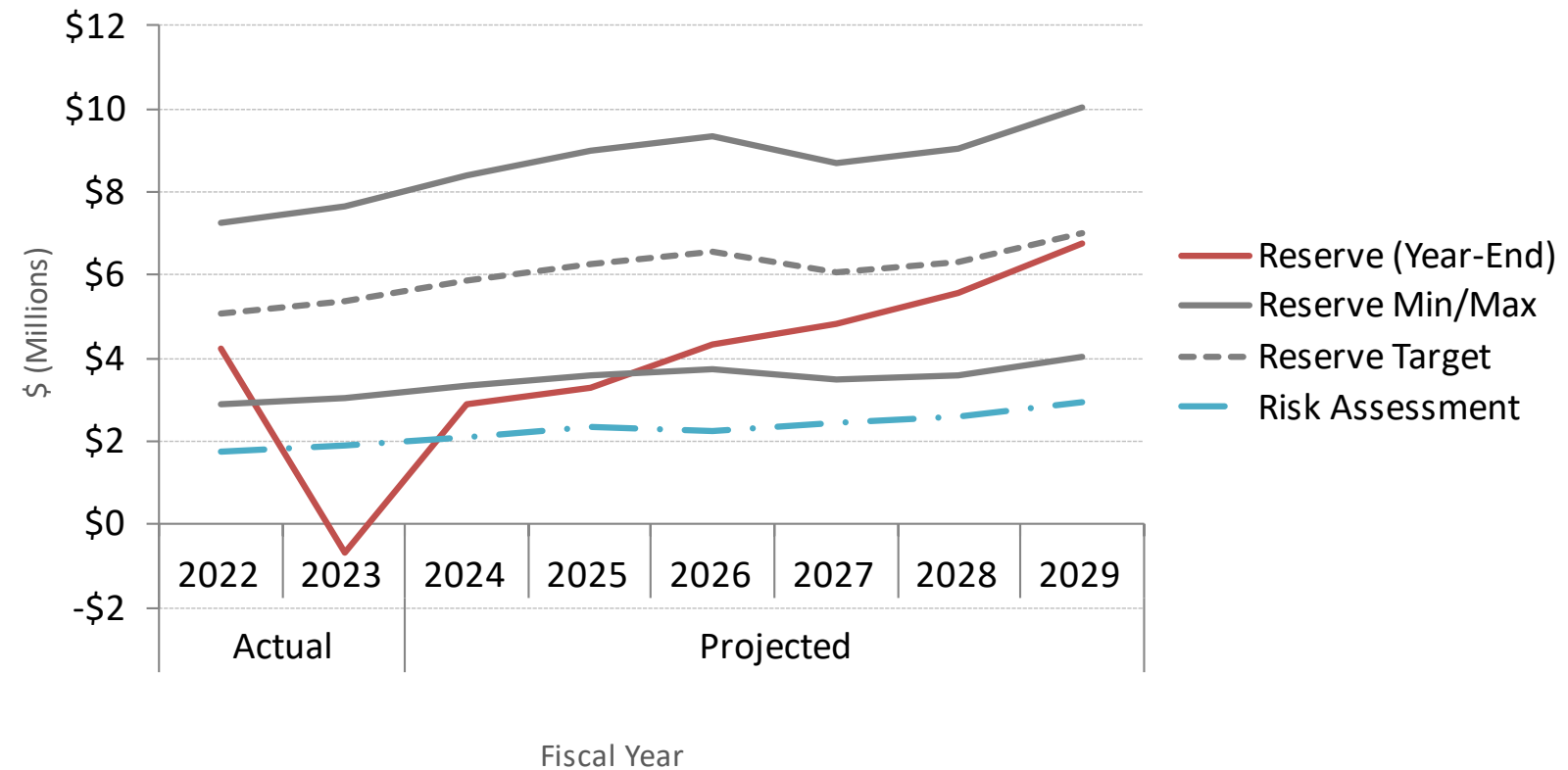
# Wastewater Collection Cost and Revenue Projections



\* Includes changes due to commitments/reappropriations and funds transferred to the CIP Reserve

Note: assumes 15% rate increase in FY 2025, reduced size sewer replacement in FY 2025 and 2026 and \$3 million short-term loan from the Fiber Optics Fund in FY 2024 that is repaid in FY 2026.

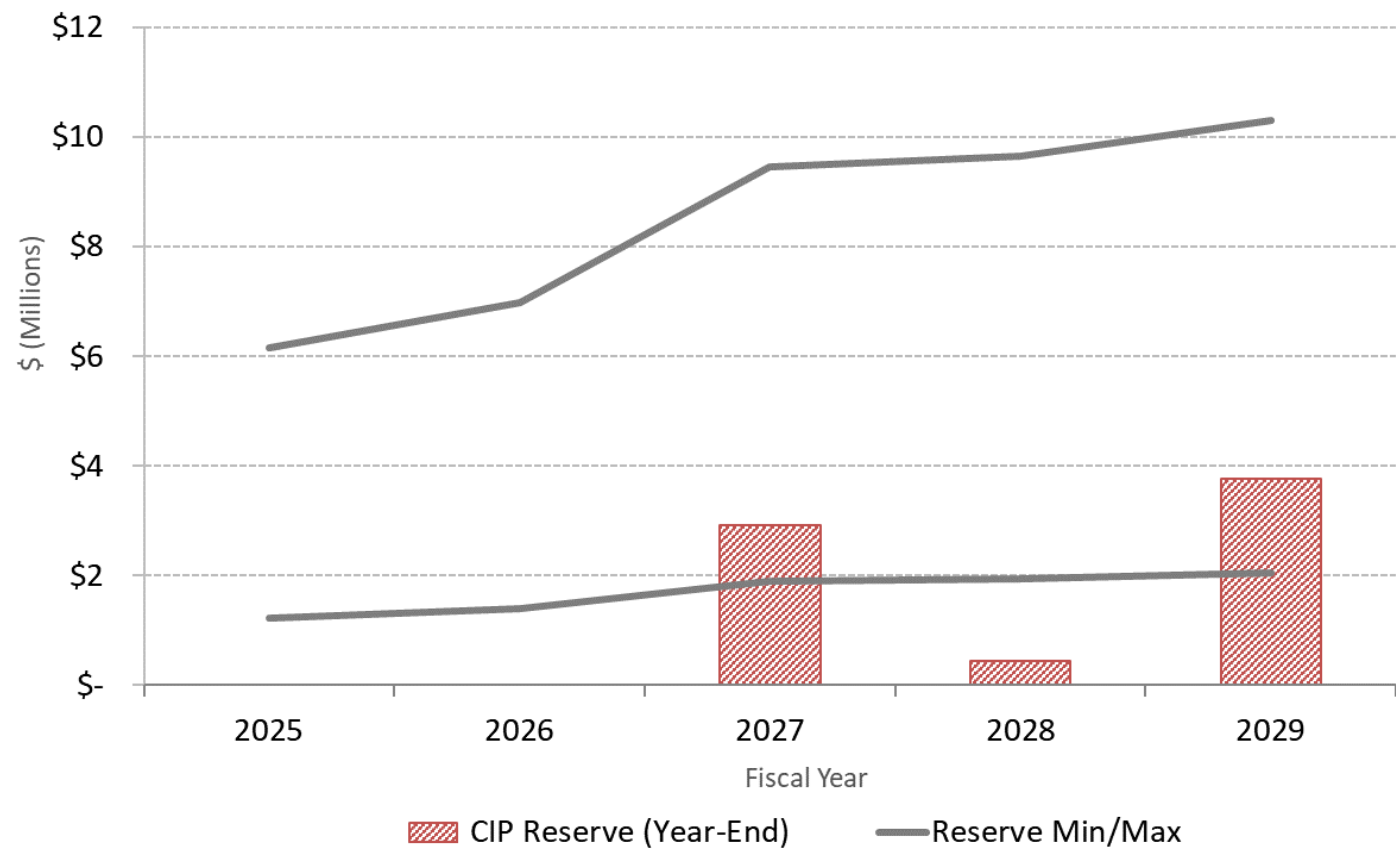
# Wastewater Collection Operations Reserve Projections



Note: assumes 15% rate increase in FY 2025, reduced size sewer replacement in FY 2025 and FY 2026 and \$3 million short-term loan from the Fiber Optics Fund in FY 2024 that is repaid in FY 2026



# Wastewater Collection CIP Reserve Projections



Note: assumes 15% rate increase in FY 2025, reduced size sewer replacement in FY 2025 and FY 2026 and \$3 million short-term loan from the Fiber Optics Fund in FY 2024 that is repaid in FY 2026

# WASTEWATER COLLECTION MONTHLY RESIDENTIAL BILL (\$)

## NOVEMBER 2023

Palo Alto is currently 26% below comparison city average

Palo Alto (FY 24)	Palo Alto (Proposed FY 25)	Neighboring Community Average	Neighboring Communities					
			Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
48.64	55.93	65.38	108.83	89.28	48.28	53.10	51.47	41.29



# WASTEWATER COLLECTION MONTHLY NON-RESIDENTIAL BILL

## (\$) NOVEMBER 2023

**Commercial:** Palo Alto is currently 9% higher than comparison city average

**Restaurant:** Palo Alto is currently 7% below comparison city average

	Palo Alto (FY 24)	Palo Alto (Proposed FY 25)	Neighboring Community Average	Neighboring Communities					
				Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
General									
Commercial	127.12	146.16	116.17	147.28	117.74	82.18	166.18	89.54	94.08
Restaurant	514.90	592.04	553.44	842.08	765.70	520.60	517.18	243.02	432.06





## RECOMMENDATION

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The Utilities Advisory Commission and Staff requests that the Finance Committee recommend that the City Council Adopt a resolution approving:

- The Fiscal Year 2025 Wastewater Collection Financial Plan, including approval of a short-term loan from the Fiber Optics Fund Reserve to the Wastewater Collection Fund Operations Reserve not to exceed \$3,000,000 for FY 2024;
- Increasing Wastewater Collection Utility Rates Via the Amendment of Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger)